

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Roberto L. Peña

SUBJECT: SEE BELOW

DATE: January 13, 2014

Approved



Date

1/22/14

**SUBJECT: ACCEPTANCE OF THE RETIREMENT PLANS' COMPREHENSIVE
ANNUAL FINANCIAL REPORT FOR FISCAL YEARS ENDING JUNE
30, 2013 AND JUNE 30, 2012**

RECOMMENDATION

It is recommended that the Council accept the following annual reports:

- (a) Police and Fire Department Retirement Plan Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2013 and June 30, 2012; and
- (b) Federated City Employees' Retirement System Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2013 and June 30, 2012

OUTCOME

Council acceptance of the Police and Fire Department Retirement Plan Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2013 and June 30, 2012 and the Federated City Employees' Retirement System Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2013 and June 30, 2012 ("CAFRs") will provide relevant financial information to the Council of the two retirement plans and ensure the Council is fully informed on the retirement plans' performance, the impact of reforms, and pension costs as recommended in the City Auditor's report on pension sustainability.

BACKGROUND

The CAFRs provide detailed descriptions of the Retirement Plans' financial activity for the period of July 1, 2012 through June 30, 2013 compared to the period of July 1, 2011 through June 30, 2012, and are generally divided into the following sections:

- An Introductory Section intended to familiarize the reader with the organizational structure of the retirement plans;
- A Financial Section which contains the retirement plans' audited financial statements, notes, required and other supplementary information;

- An Investment Section which contains the investment policy statement, performance and asset allocation information in greater detail than the financial section;
- An Actuarial Section which contains information on the retirement plans pension and other postemployment benefit actuarial valuations as of June 30, 2012; and
- A Statistical Section which contains current and historical information on plan beneficiaries.

ANALYSIS

The CAFRs are generally prepared by the Accounting Group of the Retirement Services Department. However, due to the departure of the Accounting Division Manager this fiscal year, the CAFRs represent the culmination of a concerted team effort by the entire staff of the Retirement Services Department. The CAFR is submitted to the Mayor and Council for consideration and acceptance and to provide relevant financial information to the Council, as well as the active, non-active and retired members of the System and Plan and other interested parties.

The City contracted with Macias Gini & O'Connell LLP ("MGO"), a firm of Certified Public Accountants licensed to practice in the State of California, to perform the annual independent audit. The auditors expressed an opinion that the Retirement Plans' financial statements for Fiscal Year 2012-2013 are fairly stated in conformity with accounting principles generally accepted in the United States of America. This is the most favorable conclusion and is commonly known as an "unmodified" opinion. The independent auditor's report is included in the Financial Sections of the CAFRs.

For the fiscal year ended June 30, 2013, the following are the key financial results.

- Total net position increased by \$132 million or 7.4% from prior year for the Federated System and \$223 million or 8.4% from prior year for the Police and Fire Plan, primarily as a result of the appreciation in the fair value of investments caused by an increase in the equity markets. This also resulted in an increase in additions of \$249 million for Federated and \$272 million for Police and Fire, of which \$160 million and \$289 million, respectively, are due to net investment income.
- The funded status for the pensions decreased from 65% to 62% for Federated and from 84% to 79.6% for the Police and Fire Plan as of the June 30, 2012 actuarial valuation. The City eliminated the Supplemental Retirees Benefit Reserve (SRBR) effective the first quarter of the fiscal year, which helped to offset the increase in Unfunded Actuarial Liability (UAL) from the prior year. The UAL increased primarily due to the investment losses for the fiscal year ending 2012, which is the primary reason for the decreases in funding status.
- The funded status for the healthcare trusts increased from 12% to 13% for Federated and from 6% to 7% for Police and Fire due to the changes to the plan related to the medical care options effective January 1, 2012 and January 1, 2013, offset by a decrease in the blended discount rate.

EVALUATION AND FOLLOW-UP

Retirement Services staff will present the Retirement Plans' CAFRs on an annual basis to the City Council per the recommendation of the City Auditor's report on Pension Sustainability (Audit #10-10) to update the Council on the financial status of the Retirement Plans.

PUBLIC OUTREACH/INTEREST

- ☐ **Criterion 1:** Requires Council action on the use of public funds equal to \$1,000,000 or greater. **(Required: Website Posting)**
- ☐ **Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- ☐ **Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

Although this item does not meet the criteria listed above, this memorandum will be posted as part of the February 4, 2014 City Council agenda on the City's website. The reports are scheduled to be posted by January 13, 2014.

COORDINATION

Production of the CAFRs was coordinated with the City Attorney's Office, Finance Department, City Auditor, Actuary and Auditors.

CEQA

Not a Project, File No. PP10-069(a), Annual Reports.

/s/
Roberto L. Pena
Director, Retirement Services

For questions, please contact Donna Busse, Deputy Director, at (408) 794-1020.

Attachments